

How to Negotiate with a Collector!



If a collector is calling you for repayment of a debt, we have created a concise booklet that will help you. Our 36-page booklet contains dozens and dozens of secrets about the credit and collections industries that you can use to your advantage. We will help you regain your peace of mind, while you are saving thousands of dollars and borrowing at excellent interest rates.

If you are going to borrow in the future and would like to *qualify for new credit AND pay 50% less in total interest expense on your next major purchase*, you really need to read this booklet.



Disclaimer

By proceeding, you are hereby agreeing with the following:

The owners of this site and the information products it offers for sale are not providing legal advice in any form. You cannot rely on the information provided as legal advice and please be aware that a lawyer has not written any of this information, except where so stated. If you have a legal question, please contact a lawyer in your state to protect yourself. Do not rely on anything you read here as legal advice, especially in lieu of contacting a lawyer directly. Every case is different and turns on its own individual facts.

You are solely responsible for the ways in which you choose to use the information presented on this site and the information contained in the products it offers for sale. You are expected to use your own judgment in deciding how to handle your personal situations and how to interpret and apply the advice offered by the site and the information products it offers for sale. The owners of this site, who are Credit Sciences Inc., a California Corporation and its officers accept no liability for the ways in which the materials and the information products offered at this Web site are read, interpreted, acted upon, or otherwise used. Errors and/or omission of information, if any, that may be present on this Web site or in its information products are purely unintentional. By purchasing, reading and/or using any or all information products, materials, etc. on this Web site, you agree to exempt Credit Sciences and all persons affiliated with Credit Sciences from any and all liability for damages, including but not limited to, direct, indirect, special, consequential, or incidental damages, resulting from the use and/or misuse of the materials, information, and advice presented on this Web site or through the information products it offers for sale.

The information available through this web site is the property of Credit Sciences or its licensors and is protected by copyright and other intellectual property laws. By purchasing, using or downloading the information products offered for sale at this Web site, you are agreeing that you will not reproduce, distribute, copy, extract, modify or tamper with the information contained in any of these information products without the written permission of Credit Sciences. Violators will be prosecuted to the maximum extent possible.

Highlights!

We sincerely hope you enjoy reading your copy of the article, [How To Negotiate With a Collector!](#) In it, you will find information on the credit and collection industries that we hope, you, as the consumer will be able to utilize to the fullest extent. In order to assist you in “getting the most out of the article,” we have put together suggestions of things “too good to miss,” as our way of introducing you to an opportunity **to put you in control!**

☞ First of all, we hope you have taken the time to see how you scored on the Collections IQ Quiz, and to read the *in depth answers* provided in the section, *Answers to Our Collections IQ Quiz*. ***Our aim is to help you be a winner in the financial arena!*** → Page 5

☞ And, please take a look at our section, *You Are NOT Alone!* where you will find a brief review of problems plaguing *millions* of Americans with credit problems and what they have done to resolve their problems and begin the good life. You truly are not alone! → Page 8

☞ *The Three Challenges!* discusses specific areas of concern facing consumers with credit problems. Please note the “bold-faced” topics in this section. You will find the motivation to make a commitment to resolve any delinquent or defaulted debts. At the same time, you will be introduced to the topic of collector negotiations that has the potential of *saving you thousands NOW*, and in the future, allowing you to maintain an attractive lifestyle. → Page 11

☞ *How the Lending Community Views Lending to Consumers with Past Credit Problems* demonstrates how you can ask for and get the credit you deserve! Let the buyer beware! Did you know that pricing for credit risk is standard practice among lenders? *What you don't know can hurt you!* We provide you with the information you need to evaluate lenders so you will have the assurance you are getting the best deal possible for your unique set of circumstances. You get a “behind the scenes” look at how you will be viewed by various lenders with guidelines on finding the “best fit” for your lifestyle! → Page 12

☞ We tell it like it is in the section, *The Costly Impact of Continuing, Uncured Credit Problems* when we explain the fate for those who do not know the benefits of seeing the “big picture” now and planning for their future! *The emphasis is on knowledge—this knowledge gives you power to master your credit!* Don't miss the graphs and charts, which we have included. If a “picture is worth a thousand words,” these graphs literally translate into a potential savings of thousands of dollars! → Page 14

✓ Figures 1 and 2 illustrate the interest amounts that would be paid by persons with different credit profiles while purchasing a new car. Find out what your status would be as you *analyze the savings potential*.

✓ Figure 3 takes the same credit profiles and applies it to the costs of buying a new home so you can *see the benefits* of a better profile!

☞ What are the three segments of the Collections Industry? Learn about them in detail as you read the section, *How the Collection Industry is Structured and How it Works*. This section is full of information about an ever-changing industry, so you will know who is contacting you and how to *use this information to your advantage!* → Page 19

☞ *Are you ready to save money? How to Address the Three Challenges* is a *must read*. It describes in detail how to implement changes as you make the commitment, learn to negotiate to save thousands of dollars in present and future credit expenses, all while you are living an attractive lifestyle and insuring that you are a creditworthy consumer! → Page 24

✓ Pay particular attention to the step by step suggestions on *how to negotiate with a collector and how to insure that your credit report will be affected in a positive way*. We give you many suggestions on how to do this along with helpful hints *on how to save thousands of dollars during the process*.

✓ Note the questions and answers that are designed *to give you the answers you are looking for* and the examples that are modeled from everyday life to illustrate practical applications of this material.

☞ Bonus = *Worksheets* = are at the end of this article, which will help you list your assets and *find sources of money* to help you in your quest for a better method of curing your credit problems forever! → Page 35



Table of Contents

Answers to Our Collections IQ Quiz.....	Page 5
You Are Not Alone!.....	Page 8
The Three Challenges!.....	Page 11
How the Lending Community Views Lending..... to Consumers with Past Credit Problems	Page 12
The Costly Impact of Continuing, Uncured Credit Problems.....	Page 14
How the Collection Industry is Structured and How it Works.....	Page 19
How to Address the Three Challenges.....	Page 24
Worksheets.....	Page 35

Answers to Our Collections IQ Quiz

In the following, you will find references to the credit report and to credit ratings. We discuss those topics in great detail in other brochures, which are available through this website. We recommend that you read our summaries of these brochures and consider purchasing them, should you feel you need more information about how the nation's credit information system works and how credit ratings are calculated and used.

1. Can I dispute the debt and make the collector away?

No, this is rare. While you can dispute any debt, the dispute will prevail *ONLY* when there has been an *error* of some kind.

If the product you purchased was defective or if you did not borrow the funds in question, then you can successfully petition the creditor to remove the debt and the collector will stop calling. However, making a successful dispute is not always quick and easy and much paperwork is usually involved. In addition, for fraud, many collectors and creditors require that a police report be filed before they will consider that kind of a dispute. In all cases, however, it is important for the debtor to realize that he bears the burden of the proof, which can cause problems.

2. Can I get my bad debt removed from my credit report?

No, this is very rare. Only if there has been an error can you have a “negative” permanently removed from your credit report.

Despite much advertising to the contrary, there is virtually no way to permanently remove negative information from your credit report, if it is accurate. The law has required the credit bureaus to establish a dispute process that consumers can pursue to get errors removed. However, while time consuming, once it is determined that the negative data is accurate, the credit bureau will again post that data to your report every time it is issued, for as long as the statutes will allow. The credit bureau will display your charged off accounts for seven years and your bankruptcy for ten years.

Divorce does little to change this. Those debts you incurred with your spouse will follow you in your post-divorce period. Your new creditor will most likely view any negatives on your credit report as your obligation, ones you will be required to rectify before getting new credit, regardless of what your divorce settlement decreed regarding who was responsible for these debts going forward.

3. Can a collector sue me if I do not pay my defaulted debt?

Yes. Collectors file many lawsuits each year.

These lawsuits have an extremely high success rate. Usually the collector obtains a judgement against the debtor in more than 98% of all such cases. Those debtors who have financial assets, a

car, a home, are especially vulnerable. Collectors often seek a lien on those assets as a means of forcing the consumer to repay his defaulted debt.

4. Can a collector access information on my personal finances and my assets?

Yes.

The Fair Credit Reporting Act gives any collector with the right to work the debt, the right to access a credit report as part of the bad debt recovery process. The credit report contains a very comprehensive financial history of the debtor, including knowledge of such assets as real estate, cars, boats and planes.

5. Can a collector find me even if I move and do not list my new phone?

Yes.

Your credit report contains many leads that a diligent collector can pursue to find you and contact you. That report contains leads to lenders who are serving you today, as well as an address history and, on occasion, employment data. Any one of these leads can be pursued to find your current address and phone number, both at work and at home. It is a common practice and rarely successfully disputed.

6. Can a collector inform the credit bureau if I don't pay my defaulted debt?

Yes.

The nation's three largest credit bureaus, all accept data contributions from collectors. So, each collector who calls has the opportunity to notify the credit bureau that you are in collections and to update that bureau should you pay or not pay. Their contributions are very quickly integrated into the nation's credit database, which any of your creditors, past, present or future, can legally access.

7. Can a collector garnish my wages?

Yes, but only in certain states or with regard to certain types of debt.

For example, Georgia law allows wage garnishment. And, select kinds of federally sponsored student loans also enable the collector to garnish wages. Please, consult an attorney for guidance regarding whether or not your specific defaulted debt is subject to wage garnishment in your state.

8. Can the collector tell my friends and my employer about my financial problems?

No, not usually.

Your financial problems are confidential and the collector is usually limited to discussing them with you, the party who owes the money. However, collectors are allowed to pursue legal

processes that will post your defaulted debts to the public record. Once your defaulted debts become a matter of public record, your friends and employer can find out.

9. Can a collector offer me a discount on the amount I owe?

Yes. Discounting is a common practice, but it is far from automatic.

However, the amount of your discount is highly dependent upon the kind of collector that calls. A collector employed by the creditor or lender is much less likely to offer much of a discount to you, especially if your debt is only delinquent, but not yet charged off. A delinquent debt is one where you have failed to make payments on time. A charged off debt is one where the lender has determined that you are in default of the debt and he can no longer expect repayment.

A collector who works for a contingent fee agency is more likely to offer you a discount. However, this collector must abide by the discount policies established by the creditor, which at times can be liberal and at other times can be very conservative. Generally, this kind of collector will initiate the collection process with a balance-in-full demand, which may also include late fees, unpaid interest and other charges. He can progress from that offer to one with a larger discount, but only in accordance with the creditor's discount policy, which will also relate directly to your financial predicament. The contingent fee collector has received the right to call you based upon the fact that the creditor has contracted with that collector's firm to work the bad debt, which is almost always charged off debt of some kind.

There is a third kind of collector that is becoming more prevalent and this kind is known for issuing more discounts. This collector works charged off debt, but as the titleholder to the claim. This collector works for a firm that has purchased the rights to the charged off debt from the creditor. When this occurs, the collector has a great deal more latitude in deciding if a discount is to be offered and how much. This collector is not bound by the creditor's discounting policy. His major aim is to collect enough from each debtor to pay back the money he spent to purchase these distressed assets and earn a profit.

10. Can paying a collector improve my credit rating and help me get new credit at a reasonable rate?

Yes, it certainly can.

However, the process is not automatic. We hope in the following to give you the knowledge you will need to insure that should you repay your defaulted debt, you will maximize your chances to successfully apply and receive reasonably priced credit in the future. It is critically important that you negotiate for the proper statuses on your credit report and that you select the right financial services firm in the future. While you need to be sure that you are selecting the firm that will lend to consumers with your level of risk, you must also insure that your rates and terms are appropriate for your level of risk and not a more risky consumer.

You Are NOT Alone!

Millions of Americans Have Credit Problems

If a collector is calling you for repayment of a debt, please be aware that you have a lot of company. Every year, *at least 5.0 million Americans* find themselves being approached by a collector and asked to repay a delinquent or defaulted debt. Please, also be aware that most of these 5.0 million American consumers are not "deadbeats" or "slackers" or anything of the kind. These are people who have encountered one of life's many problems, such as divorce, ill-health or loss of job, and are now in the midst of trying to pay more bills than they have cash to cover.



Even when this consumer's life returns to normal, he will face two major problems:

1. Unless he settles or repays his defaulted debts, collectors will remain a part of his life for a number of years, so he will have a continuing need to address the many demands they will make on him. His unpaid defaulted debt will be recycled through numerous agencies for years, in the hopes of eventually recapturing the defaulted funds.
2. This consumer, if he responds poorly at this time, will be very vulnerable to paying thousands and thousands more for future borrowings. He will undoubtedly apply for more credit in the future, which may be exceptionally costly, as the lending community offers him only the highest rates; those reserved for the nation's highest risk borrowers. The car in his driveway will not last forever and he will most certainly be attempting to replace it before seven years elapses, the time required for charged off, defaulted debt to age off his credit report.

No "Easy-Way-Out"

While we would like to tell you that there is a really easy way to "make it all go away," we have reviewed many of the "easy-way-outs" and have found that there really is none of much consequence, despite much advertising to the contrary. Unless you are one of the unfortunate

victims of an accounting error or horribly deficient products, we have not yet found any legitimate way to make the "bad news" go away permanently on your personal credit report. Nor, is there any way to "start-over" and not incur substantial costs.

So, while "credit repair" clinics continuously offer to "wipe your slate clean," it has been our experience as executives in a major credit bureau that for the vast majority of consumers, there are no such easy answers. As credit bureau executives, we have seen millions of attempts to get accurate information removed from a consumer's credit report, nearly, all of which failed to make any permanent changes. And, after many interviews with lenders, we have concluded that there are many substantial future costs awaiting the consumer who chooses bankruptcy as the "solution" to his current dilemma.

Just ignoring his defaults will leave this consumer very vulnerable when he is attempting to get new credit in the future. He will pay a substantial penalty for his procrastination, which could easily cost him thousands of additional dollars.

- In particular, this consumer will be in a very weak negotiating position relative to his former creditors. His new creditor will undoubtedly ask him to resolve his defaulted debts and he will find his former creditors very unwilling to grant discounts and waive accrued interest and other fees, once they determine that this consumer is applying for new credit. And, his former creditors will discover this because his new credit inquires will be posted on his credit report. His inability to negotiate for discounts could be quite costly; especially if he has numerous defaults and owes thousands of dollars.
- Additionally, this consumer may be forced to pay much higher interest rates to his new creditor. The new creditor will take into consideration that the debts were not repaid voluntarily, which will often place this consumer in a higher risk, much higher interest rate category. This, too, can cost this consumer thousands in additional interest and fees for larger purchases.

How to Can You Translate *Your Good Character into Savings NOW and Much Lower Borrowing Costs in the FUTURE?*

We plan to enable you to demonstrate to the financial community that you are more credit worthy than your current spate of problems would suggest. We will show you how you can ***resolve your defaulted debts for the lowest possible cost AND position yourself to borrow at reduced rates in the future***, both of which could ***save you tens of thousands of dollars*** overall.

We will give you the ***negotiating secrets*** you will need to ***resolve your debts for much less*** than you might think. If you owe a great deal, these secrets can translate into ***thousands of dollars in savings***. And, based upon our copyrighted approach, you will also be positioning yourself ***for much lower future borrowing costs***, which can have a huge impact on your future financial life and your lifestyle.

With our help, you will learn how to avoid the many, many long-term costs of incurring numerous unresolved, defaulted debts. Our research indicates that the consumer ***who does not***

manage his problem successfully, will most likely pay ***50% more in total interest expense than the consumer with past credit problems who reacts more appropriately.***

To create the impression that you are a better credit risk and worthy of lower borrowing rates, you must demonstrate to the financial service community ***that lending to you is a low risk proposition.*** To do that you will need a progressive approach that will enable you to repay or resolve your delinquent and charged off debt, which is the only sure way that you can have a lower risk profile and position yourself for lower borrowing costs in the future.

We have found that the lending community responds well to the consumer who insures that the lender will get his money back and responds poorly to those who do not. We believe that there really is no other reliable way for you to position yourself for the future. The “easy-way-outs” are not all that “easy,” working very rarely and the penalties for procrastination are often huge.

Remember, every year ***over 1.0 million Americans*** chose to repay or resolve their debts directly with collectors. If you chose to resolve your debts at this time, you will receive the many benefits they have chosen to enjoy. And, with our help, you will be able to ***enjoy those same benefits, only at much lower expense to you.***



The Three Challenges!

In our research, which has included the review of tens of thousands of consumers with credit problems, we have discovered that the consumer with credit problems faces at least *three challenges*. We hope that you can utilize the information we have provided here and successfully address the three challenges, which we have listed below:

1. How can you overcome your distaste for the collection process and commit to resolving your delinquent and defaulted debts to the best of your ability?

This is not easy. We have found that consumers usually feel threatened and harassed by collectors, which provokes them to ignore what he has to say or to hang up on him. A collector will call a consumer at his home or place of work and demand that he address his unpaid debts, which often makes the consumer feel terribly, since he is often in his predicament by chance, not by choice.

Unfortunately, many consumers yield to their emotions and never focus on the issues and attempt to solve them. They sink into a pattern of deliberate avoidance, which then leaves these issues unresolved, most likely forever. When this occurs the consumer is positioned for a host of additional, sometimes excessive long term costs as he is forced to borrow at very high rates for many years, which can cause him interest expenses 50% - 65% greater than need be.

2. How can you negotiate with the numerous collectors who are calling you so that your credit risk profile is improved, while you are resolving your delinquent and defaulted debts?

Some consumers have found this challenge exceptionally difficult. Most consumers find that they are being asked to address a collector's demands for money at a time when their income has been reduced or eliminated. We plan to help with this challenge, which will include successful negotiating and astute financial management.

Once this consumer overcomes this challenge, he will be able to borrow more easily in the future and at lower rates, which will mean thousands and thousands in savings on interest expenses and other finance charges over the next few years. In many cases these savings equal or exceed the costs of resolving his current spate of problems, which will net our consumer a return on his investment.

3. How can you find ways to lead an attractive lifestyle, while you are building your disposable income by curbing your consumption of higher cost financial services?

A noteworthy number of consumers with past credit problems have found ways to reduce their consumption of financed goods and services. In the process, they have also discovered many benefits, ranging from lower overall monthly payments to increased financial resources to better borrowing terms. This consumer needs to avoid the purchase of large capital items, such as a car, until he has resolved many of his outstanding problems. Otherwise, he will be

borrowing at exceptionally higher rates, those offered only to the highest risk consumers. These services are exceptionally costly and cause the consumer to incur as much as 50% - 65% more interest expense on every purchase he finances.

Before we proceed with how to address these three challenges, we need to provide you with some details. In the following, we will discuss how the lenders view lending to this kind of consumer and what the implications are for this consumer. We will also discuss how the collection industry works and what some of their challenges are. With this knowledge, we hope that you can better relate to our approach to the three challenges.

How Consumers Respond

Consumers seem to fall into three groups.

- Those who repay all or most of the balance of their defaulted debts and do so with a minimum number of payments.
- Those who repay their defaulted debt by accepting and performing on a more complex, longer term financial instrument, such as a rewritten note that spreads repayment out over a number of years or some other kind of instrument.
- And, those who do not repay much if any at all.

How the Lending Community Views Lending to Consumers with Past Credit Problems

A Changing Community

Many years ago banks would only lend to “good” people, meaning those with no credit problems of any kind. However, as competition has increased among lenders and as lenders learned how to price for the credit risk of the consumer, lenders have begun to lend to debtors of all credit profiles.

Hence, you often see the slogan: “Bad Credit, No Problem!” What is not readily revealed is that lenders who target people with credit problems often offer them extremely highly priced services. These lenders demand exceptionally high, but legal interest rates, and include other costly terms and conditions with every loan they make.

Lenders, Risk Management and Lending to Consumers with Past Credit Problems

A lender will almost always charge more for a financial service that is sold to a consumer with a history of credit problems than to a consumer with no history of credit problems. Once a consumer has incurred prolonged delinquencies and charge offs, he is labeled a "problem debtor" and his credit risk rises in the eyes of the typical lender. As credit risk rises, so do interest rates, fees and other charges. These charges rise because lenders have determined that lending to

consumers with past credit problems is more risky and more expensive. These lenders usually encounter increased servicing charges and much higher default rates, all of which must be funded by charges to this consumer.

Lenders who service consumers with past problems have stratified themselves according to the riskiness of the consumers they target. They refer to themselves as “subprime” lenders, meaning that they are not targeting “prime” borrowers, who are often referred to as “A” credits. “A” credits are consumers with no history of credit problems, even though they are veteran users of credit products and services.

The “subprime” lenders have categorized themselves as “B,” “C” or “D” credit lenders, with “D” lenders targeting the riskiest debtors in the population. The subprime lenders judge their credit risk primarily from credit report data and credit application data, with credit report data often taking precedence over income and other assets listed on the application. Many are developing specialized credit scoring algorithms to help them manage the many unique risks inherent in subprime lending.

For example, a “D” credit might be a prospect with six charge offs totaling over \$16,000, two delinquencies in the last year and a one year old bankruptcy on his credit report. The profile of the “D” credit is one who is still accumulating problems, as noted by the recent delinquencies and has not attempted to fix or cure any past problems, as evidenced by the bankruptcy. Lenders who are willing to accept the risks of lending to a “D” credit charge for that risk with high up front fees, higher down payments, exceptionally higher interest rates, above market late fees and very aggressive collection and repossession terms. The “D” credit lender justifies these charges based upon the riskiness and the costs of servicing the “D” credit market. As long as this lender is within usury laws guidelines, he can continue to offer these services at these rates and the “D” credit borrower has few other alternatives.

Let us compare the “D” debtor profile with that of the “B” credit. A “B” credit might be a debtor with two paid charge offs of \$4,340, no current delinquencies and no bankruptcy. A paid charge off is a notice that many lenders use to indicate when a consumer has paid off a past charge off. This consumer has clearly curbed his problem and cured past problems. The lender in this segment would offer the “B” credit lower up front fees, a higher chance of acceptance, lower down payments and lower interest and more flexible late fee and repossession terms in whatever financial service they provide. They do this not out of their generosity, but because this lender has lower costs than the “D” lender and can afford to make this debtor a better offer, in the hopes of getting his business.

The “D” credit might find that he must pay 9 - 10 percentage points more for his car loan than the “A” credit and 6 - 7 percentage points higher than the “B” credit. In mortgages, the “D” credit might pay as much as 3- 4 percentage points more in interest rates, should he be able to get one.

The Costly Impact of Continuing, Uncured Credit Problems

The Fate of the “D” Credit: A Potential Lifetime of Extremely High Borrowing Costs

As we will demonstrate for you, the “D” credit will most likely incur huge additional expenses over time if he continues to borrow aggressively while he is in such a high-risk state. Under these circumstances, the “D” credit pays a large penalty for borrowing aggressively while he is continuing to incur credit problems that he does not fix. These costs can escalate into *the hundreds of thousands of dollars*, if the “D” credit consumer continues to consume costly goods, such as a car and a home, which he will be forced to finance at exceptionally high interest rates.

In most cases, the “D” credit will pay approximately *\$4,000 more to buy the typical car* and over *\$150,000 more to buy a traditional home* than will the “B” credit, a consumer with a spotted credit history who has curbed and cured his problems. And, the “D” credit also pays extraordinarily more in interest expenses, paying as much as *50% more* to buy an attractive car and *65% more* to buy a traditional home. Further, we estimate that he spends at least *20% more* in total fees to a credit card company for every item he finances with a higher rate card.

By paying such additional charges, this very high-risk consumer is positioning himself for another spate of credit problems. He is very vulnerable to the slightest downturn in income, which could precipitate more delinquencies, defaults and charge offs. And, he is often locked into dealing with only those subprime lenders who offer the highest rates and the most aggressive terms. He simply cannot meet the qualifications posed by other more risk averse subprime lenders.

As our research has shown, the “D” credit may not have any choice but to borrow and pay these exceptional interest rates. Should his car fail or should he need to finance furniture and other items due to a change of residence, he may be forced to pay these excessive rates, since only the “D” credit lender will deal with him. Once this occurs, he may be trapped in a cycle of higher interest rates, lower disposable income, lower reserves and additional credit problems in the future, should his income falter (and whose does not)?

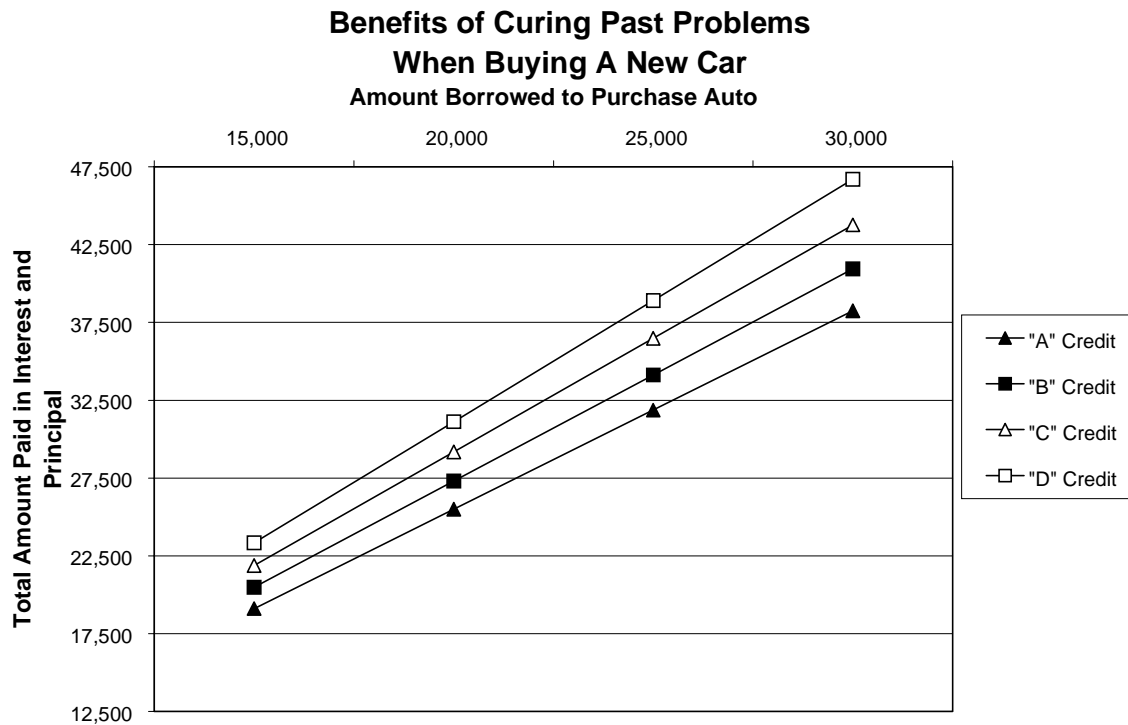


How the “D” Credit Can Incur Those Excessive Interest Costs

In our analyses, the “D” credit incurred far higher total costs and exceptionally higher total interest costs on his purchases, due almost entirely to the higher interest rates subprime lenders charge the “D” credit, whom they regard as the riskiest consumer to service. As you will see, those higher interest rates generate exceptionally high total interest expenses, especially during longer-term loans, such as a mortgage. This phenomenon is also true for higher rate credit cards. It is simply harder to analyze because there is no set term.

We have created a series of analyses showing the differences in total cost to finance and own a car and a home. We have compared the total costs of each for “A,” “B,” “C,” and “D” credits. In our analyses, we are comparing the costs for the “B” credit borrower and the “D” credit borrower to demonstrate the differences between consumers who have credit problems, but who have reacted to them differently.

Figure 1



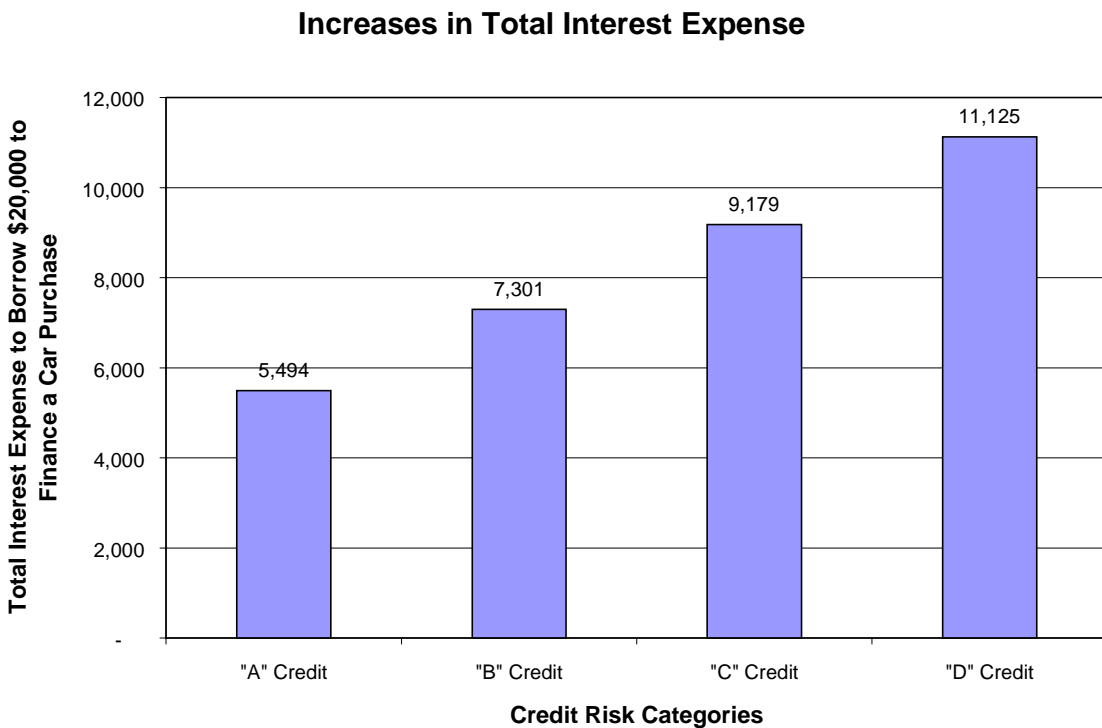
In Figure 1, we have graphed the total costs of a new car purchase for different credit risk profiles. We have graphed the costs for the “A,” “B,” “C” and “D” credit borrowers and have depicted how their total costs in interest and principal expense for a five year new auto loan for borrowings of \$15,000, \$20,000, \$25,000 or \$30,000. In this analysis, we have determined that the “B” credit would pay approximately 6 percentage points less interest than the “D” credit.

As you can see, the “D” credit is paying substantially more than the “B” credit in all cases. He is paying almost **\$3,000 more** when borrowing \$15,000, almost **\$4,000 more** when borrowing \$20,000 and much more when borrowing \$30,000. The “D” credit, by borrowing **\$30,000** to

purchase a highly styled car, will spend over **\$46,000 to purchase that car, \$5,000 more** than the “B” credit, who would have paid only **\$41,000** in total interest and principal to buy that same car.

However, the increases in total costs are not the whole story. When just total interest expense is reviewed, the true additional cost picture of the “D” credit becomes more appalling. As shown below in Figure 2, when the “D” credit borrows \$20,000 to buy a car, he pays over **\$11,125 in total interest expense** compared to the “B” credit, who pays only **\$7,301**. This is an **increase of over 50%!**

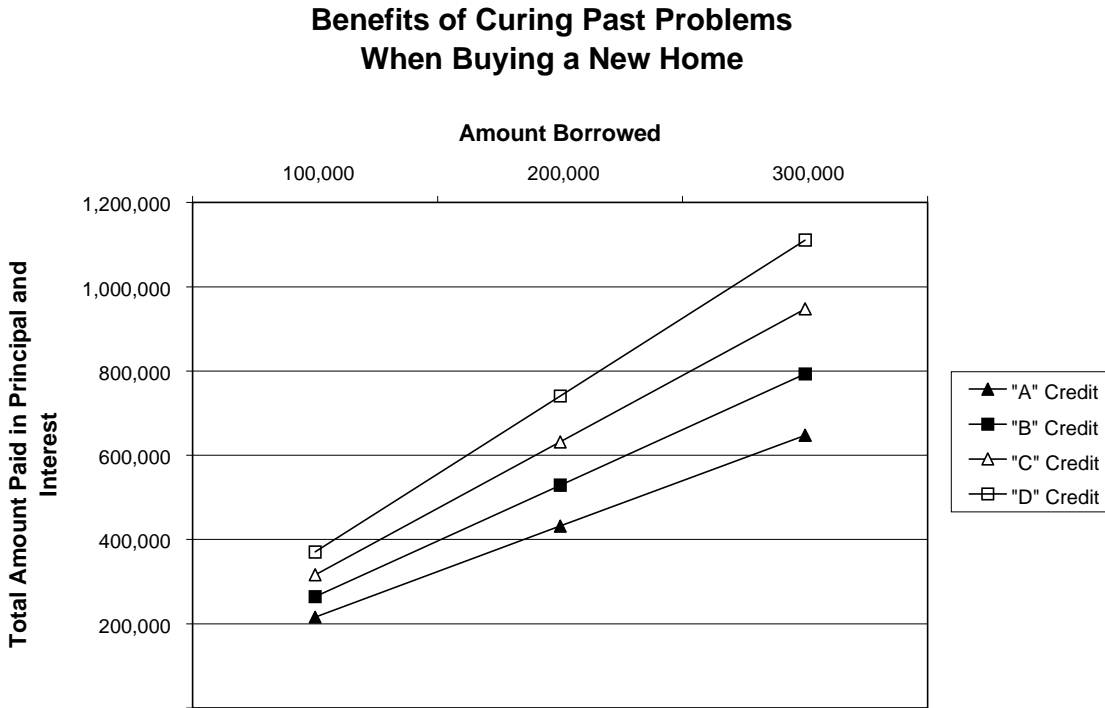
Figure 2



We have discovered that there are substantial advantages to not only improving credit worthiness, but doing that and also curbing consumption. By curing his past problems and by curbing his appetite, the thrifty “B” credit can save huge amounts. Let us assume that our “B” credit needs a new car and is willing to purchase a less highly styled, but reliable car. Should this more thrifty “B” credit borrow just **\$15,000** to purchase a less stylish car, he would spend only **\$20,000** for transportation.

However, the “D” credit would be spending over **\$46,000** to pay back the \$30,000 he borrowed to purchase his “transportation,” **an increase of over 125%** to provide his lifestyle with the same overall function. Further, the “D” credit will also spend **200% more** in total interest expense in the process. The interest expense on \$15,000 for the “B” credit is only **\$5,476**, whereas it is **over \$16,000** for the “D” credit who borrows \$30,000 to buy the higher styled car.

Figure 3



As shown in Figure 3, the case against the “D” credit is even more pronounced when he goes to purchase a traditional home, assuming he can even get a loan, which may be quite difficult in his case. Should he find a lender, he will be charged at least 4 percentage points more in interest than the “B” credit and many more percentage points than the “A” credit.

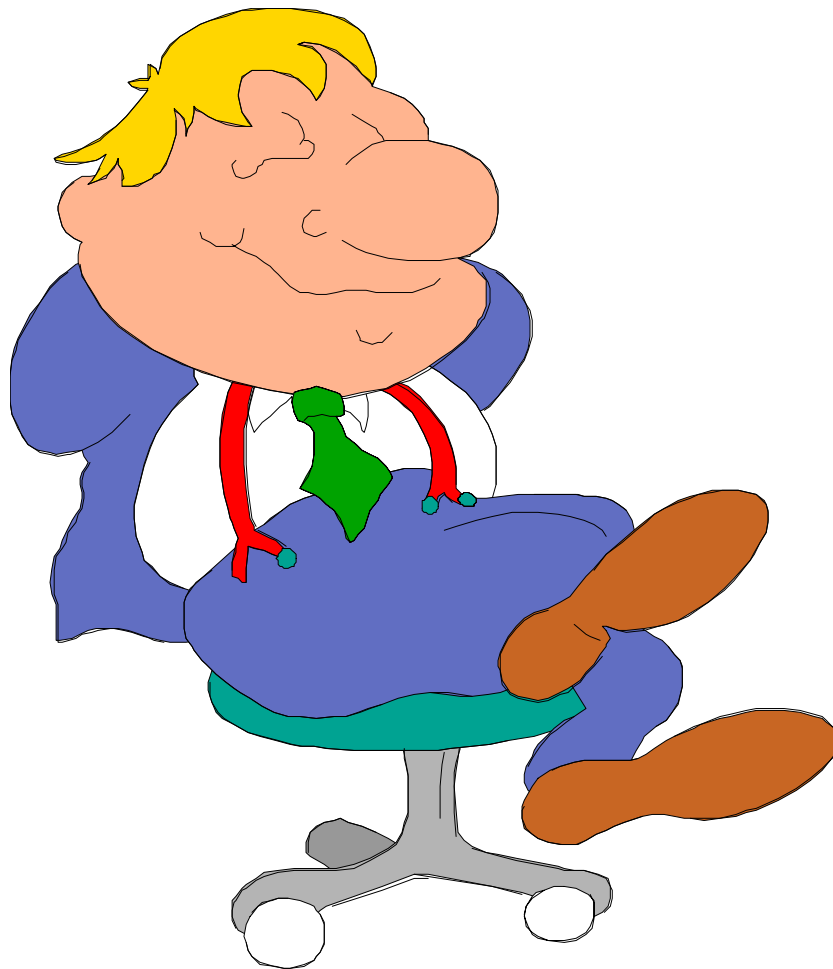
Because of these higher interest rates, the “D” credit will pay from ***\$100,000 to \$300,000 more to purchase the same home.*** As is shown in the graph below, the “D” credit will pay over ***\$370,000*** when borrowing ***\$100,000*** to purchase a home, whereas the “B” credit will pay only ***\$264,000***, creating ***an additional costs of \$106,000 for the “D” credit.*** Should the “D” credit borrow ***\$300,000*** to purchase a larger home, he would pay ***over \$1,110,880 in principal and interest charges*** compared to the “B” credit who would have to pay only ***\$792,000*** to borrow the same amount.

In these cases, the “D” credit is spending ***over 60% more*** in total interest expense to purchase the same quality home. Since the initial borrowings are large, that translates into hundreds of thousands of dollars in additional lifetime expenses for the “D” credit. Expense increases of that magnitude are no longer just inconveniences. It is highly likely that the “D” credit will either be unable to afford a home purchase, or highly likely to default on one given the slightest disruptions in income.

In fact, it is highly likely that the “D” credit will be at risk for more credit problems. Since he is paying so much of his income in interest charges, he is most likely failing to accumulate any reserves and highly likely to fall into another spate of credit problems. This is a likely occurrence given the circumstances of this consumer and even a slight decrease in monthly income can cause things to spiral out of control. This will be followed by an additional 7 – 10 years of being charged the highest interest rates and fees, which could easily translate into a lifetime of excessive charges.

There is a Better Way!

Fortunately, there is a better way, which we will show you in the section “Addressing the Three Challenges.” If you follow the methods outlined in that section, you can curtail your problems with less money and less effort than you thought possible, while you are positioning yourself to negotiate for “B” credit rates, not “D” credit rates. Before we proceed to that section, we recommend that you read about the practices of the collection industry, so that you can better relate to our proposed solutions.



How the Collection Industry is Structured and How It Works

Fundamental Changes in the Making

The collection industry is a large, fast-growing industry that is undergoing a series of fundamental changes. At one time the industry was known for its intimidating tactics, replete with threats of lawsuits, embarrassing public disclosures, harassing late night calls and deceitful practices, such as disguising a collection notice as an offer of credit. Over the years, a growing backlog of consumer complaints has fostered new laws that have restrained collectors and eliminated or considerably restrained many of the worst practices. The industry is governed by a portfolio of laws that have been established by the federal government and by each state. One of the prominent laws is the Fair Debt Collection Practices Act, which regulates many of the collection practices. Related laws also impact this industry. The Fair Credit Reporting Act, which regulates who is allowed to access a consumer's credit information file, grants access to this essential information to any collector with a legitimate right to collect an account with a balance owing.

There is another source of change. Many creditors are starting to look at the delinquent or defaulted debtors as potentially valuable customers, once they have improved their payment performance. Competition in the financial services and credit related industries have increased substantially, which has dramatically increased the costs of obtaining new customers. The cost of a new credit card customer has risen by approximately 200% over the last ten years, while revenues per new customers are stagnant in many circles. With the costs rising and profits from new customers dwindling, many creditors are looking at the delinquent and defaulted debtor as a future opportunity, instead of a past mistake.

With these factors impinging on them, many of the best collectors have begun to rethink their collection philosophies. Some have begun to see themselves as "account receivable managers," not just as "bill collectors." With that new philosophy, some collectors have begun to review their traditional, confrontational collection practices. Some collectors are attempting to position themselves as "credit counselors," a source of potential solutions to a very distasteful problem, namely getting consumers to address their nonpayment of debt.

It is important to realize that the industry is changing. It is also important to realize that there are still collectors from the "old" school who will call you. An industry as large and as complex as collections, does not change quickly. However, we can state that today, more so than ever, there is a growing chance that the collector who calls you may have a more cooperative attitude and be more willing to negotiate with you regarding the settlement of your delinquent or defaulted debt.

The Collection Process

While there are three different segments to the collection industry, many aspects of the collection process are similar across these segments. Nearly every delinquent or charged off consumer is mailed a notice, which is usually followed by a telephone call from a collector, who requests resolution of the delinquent or defaulted debt. "Bad checks" are the nemesis of the industry. While many consumers agree to pay, many of them write a check that is not backed by sufficient

funds, which creates more expense for the collector, since he must re-contact the consumer to resolve this problem. Another nemesis of the industry is the “broken promise,” which is a promise to pay that is made by a consumer who then fails to execute. This also causes the collector additional expense. And, finally, each collector has the challenge of actually contacting the debtor, since many are no longer at their former address and few leave forwarding addresses. The cost of finding a “skip” can range from a low of \$5 per debtor to a high of over \$135 per debtor, which represents a significant expense to the collector, since he processes thousands of these a week.

In turn, many consumers often feel harassed by collectors. Collectors call them at their home or their place of work and demand that they address their unpaid debts, which often makes the consumer feel terribly, since he is often in his predicament by chance, not by choice. One typical tactic of the collector is to make the consumer feel guilty for not paying his debts. On occasion, some collectors are aggressive, some are even abusive. Once the collector has made the debtor feel guilty, he is coached to then negotiate payment. Unfortunately, few collectors are able to define in detail the benefits of repaying the delinquent or defaulted debt.

Unfortunately, some consumers behave poorly as well. Aside from the all-too-typical ploys of screening calls and refusing to return calls from collectors or denying responsibility for debts actually owed, some consumers become much more aggressive. Some threaten the collector with legal actions they do not intend to take and a few actually threaten the collector with bodily harm. The collector is just a “work-a-day” person like the rest of us, who is attempting to collect on a defaulted debt. He does not deserve threats of bodily harm, yet some are made. Some collectors go so far as to use fictitious names on the phone. They are trying to insure that the debtors they contact cannot find them and execute a threat to cause them harm.

The Three Segments of the Collection Industry

Presently, the collections industry in the United States is very large and contains three prominent segments, each of which functions in accordance with a specialized set of policies and procedures.

1. Collection organizations that are owned and operated by the creditor,
2. Collection agencies that are independent third parties who solicit bad debt placements from creditors and
3. Recovery firms who purchase charged off debt and process it in accordance with their own policies. This is the fastest growing segment.

Creditor Owned Collection Organizations

Many creditors own a collection organization. Many banks, savings and loans, credit card companies and finance companies own their own collection resources. Also, some firms not thought of as creditors, such as hospitals, telephone companies and utility companies, also own collection departments. This segment of the market is captive and hard to analyze in great detail. However, we estimate that this segment of the market processes over \$200 billion in delinquent debt per year, which consumes huge amounts of manpower, time and money.

Delinquent debt is debt where the debtor has failed to make the right amount of payment at the right time. Creditors are very sensitive to not only the amount of the payment, but also to when they receive that payment. In nearly every kind of financially related service, the creditor states what is owed and when payments are expected. Delinquency can occur under a number of scenarios. Usually, an account is delinquent when the debtor fails to make the prescribed payment within the designated period.

Since most often these in-house shops address their firm's delinquent debt, the collection goals are to get the consumer current with his obligations and still retain him as a customer, whenever possible. The collectors who work in such organizations are usually bound by strict policies regarding contact and discounting. We have observed that these collectors most often approach the delinquent debtor in a conciliatory manner. Usually they require the debtor to pay the amount of the delinquent claim, plus late fees and accrued interest. On occasion, these firms will allow a consumer to close a delinquent account, given a payment of a specified amount. However, they rarely grant a discount, especially a large one.

The consistent refusal of the creditor's collector to grant a discount, especially in industries like bankcard or retail card, is not done out of spite. While the creditor may have sympathy for your problem and he may actually want to help, he would have a severe credit policy problem, should he grant you a huge discount, especially if your account is just delinquent. Creditors have a large outstanding balance of monies lent to consumers and the only method they have to insure consistent and complete repayment of those loans is their credit policy, which demands that all balances, interest and fees be paid in full.

Should a creditor executive give in to the temptation to help you and discount your debt by 40%, for example, he may be forced to set the same precedent with every other borrower his firm has, which would mean financial disaster for his firm. Imagine if a large credit card bank, with over \$200 billion in credit card loans outstanding, were to let it be known that they would allow delinquent debtors to pay only 60% of the amount owed. If only 15% of the consumers who owed that \$200 billion were to decide to go delinquent and accept the 40% discount, then that credit card bank would become insolvent very quickly. That one moment of sympathy might cause \$80 billion in delinquencies and over \$32 billion in lost revenues, as well as very negative profits.

The Third Party Collection Agency

The second segment is the collection agency segment, one that is populated by independent third parties, meaning they are not owned or operated by a creditor. This segment deals largely with debt that has progressed from delinquency to charge off stages. A charge off is a debt that the creditor has recognized as a loss against profits. Creditors regard charge offs as very negative events, since they directly depress profits and stock value. Once a creditor has charged off a debt, they often seek to place it with a third party agency, in the hopes that the increased leverage these firms can muster will result in repayment of the defaulted debt.

The collection agency segment processes more than \$100 billion in face value of charged off accounts per year. That debt comprises many forms of charged off credit cards, such as bankcards or retail cards. It also contains defaulted student loans, unpaid medical and telephone bills and many other forms of debt. With over 6,000 third party collection agencies who employ an estimated 30,000 employees, the industry clearly has an abundance of manpower. And, they need it. To process that \$100 billion in defaulted debt, the collection industry must make an estimated 1.0 billion phone calls, mail over 500 million letters and perform over 50 million skip traces yearly to contact those debtors who are no longer at their previous addresses and phone numbers.

The policies and procedures in this segment of the industry are governed by three overriding factors. One is the policy of the creditor who places the debt with the agency. The second is the law, with its many statutes. The third is the consumer. What is his predicament and how can that be resolved to the mutual benefit of the agency and the consumer? Typically, the collection effort at this stage is more aggressive. Many debtors have moved and need to be relocated. Others are very unwilling to talk with a collector and refuse to respond to mailings, calls and other forms of contact. When contacted many debtors attempt to deny or dispute the debt, which is rarely successful. The collector must overcome these challenges, if he is to recover any debt at all.

This portion of the industry usually operates at very low profitability, with some notable exceptions. Tenuous profitability, combined with changing norms and practices severely challenges the management of many agencies. We suspect that in the end, there will be fewer, better managed agencies. Those fewer, better agencies will foster most of the progressive changes in this segment.

The Purchased Debt Collector

The third segment is very similar to the second segment, in that it addresses mostly charged off debt. However, since this type of collector purchases the debt, this segment clearly has much different economics and practices. Numerous factors impinge on this collector and cause change. He must invest a huge amount of capital relative to collectability to purchase the debt, which generates obligations and interest expense for as long as the borrowed funds are outstanding. He holds title to that debt, so he is no longer linked to the creditor's policies and all the constraints that entails. This means he can establish his own policies and procedures.

As a result, this collector is often eager AND able to be more flexible with regard to discounts, settlement terms and other issues of interest to the consumer. Presently, the bankcard and the retail card industries have begun to sell a portion of their charge offs, selling an estimated \$17 billion in face value in 1997.

The purchased debt segment of the collection industry is the fastest growing, expanding at an estimated 60%. The procedures and practices in this segment are still evolving. A few notables in this industry have encountered substantial financial difficulties, fostered most likely by overpaying relative to collectability. With the philosophies of this segment still in development, we find it hard to project the overall trends in this arena. However, what we do know is that some firms in this industry have offered generous discounts to defaulted debtors. Whether that practice continues remains to be seen.

Fringe Industries

Surrounding the collection industry are several industries that service this industry. One is the data services industry, which is composed of credit bureaus, telephone number vendors, change of address vendors and others. The major credit bureaus, like Trans Union, Equifax and Experian service this segment, selling mostly credit reports and some specialized data products and services. The change of address vendors are licensed to access the Post Office National Change of Address database, which can provide the collection industry with the correct addresses it needs to mail its notices. Usually, the collector is required to mail notices as he begins his debt processing. The telephone number vendors sell access to their database, which is composed of listed telephone numbers ONLY. These vendors sell data on CD-ROM, tape or on-line.

The practices and promotions of other industries affect the industry, such as credit repair, the legal profession and debt consolidation firms. The credit repair firms attempt to persuade the delinquent or defaulted consumer that they can eliminate their credit problems at virtually no cost to them. While these firms make many claims, we have observed that few consumers have had much success at permanently eradicating accurate “negatives” from their credit record. The legal profession has two related roles. One is its role as a collector. Lawyers do file claims and obtain judgements against consumers for nonpayment of debt. Lawyers also enable consumers to file for bankruptcy, which can dramatically curtail any collection activity against that consumer.

Debt consolidation firms attempt to negotiate different conditions and terms to the delinquent/defaulted consumer who owes a great amount relative to his income. These firms usually attempt to reduce the debtor’s monthly obligation, in return for a long term payment contract that is affordable for the consumer. This approach can work. With proper structuring and negotiating with creditors, the consumer can assume a smaller monthly obligation that will eventually lead to resolution of his delinquent or defaulted debt.

However, the consumer must maintain his payments and insure that he is not postponing problems, with accrued interest and other fees. It is possible for the consumer to consolidate his debt and have some of the interest accrued, rather than owed immediately. In such a process, the consumer may be faced with an overall larger amount of unpaid obligations in the future, meaning he might owe more later and be even less able to address this obligation. As always, the consumer needs to be aware of what obligations his debt consolidation contract will assign to him now and in the future, and what benefits that contract affords to him presently and later on.

How to Address the Three Challenges

1. How can you overcome your distaste for the collection process and make a commitment to resolving as much of your delinquent and charged off debt as possible?

As a first step, please look around and recognize that there are many folks with your kind of problem. As we have said: ***“You are NOT alone.”***

Secondly, recognize that you are a person of ***good character with a problem***; not a “slacker” or a “deadbeat.”

Thirdly, please do not take what some of the more aggressive collectors say too personally. Some of them are just aggressive by nature and do not know any better.

As a fourth step, you need to gather some facts:

- You need to determine ***how much equity*** you have in the assets you own, especially in your house and car(s).
- You also need to determine ***how much you owe*** and at what stage you are in the account receivable management process. Are most of your debts just severely delinquent? Or, do you have many debts that have been charged off by the creditor?
- When you are reviewing your outstanding debt, you will also need to determine if any of them are not yours and start the ***dispute process right now***. It is important that you dispute any illegitimate claim intelligently and aggressively, using all the remedies the law allows. It is also important for you to realize that the creditor will place the burden of proof on you.
- And, you need to ***estimate your cash reserves*** and take a realistic look at your ***future income*** and your disposable income. Disposable income is your net take-home pay, less those living expenses you plan to make. Please, use our forms at the back of this booklet to help you. They will give you some useful guidelines and help you insure that you have tapped all available cash resources.
- Then, ***sum up your current position***: your assets, your liabilities, your cash and your future net disposable income.



- Finally, this information is proprietary to you. Keep it to yourself and do not share it with a collector. What you need to share with the collector is your offer of repayment. Keep his focus on that.

As a fifth step, we recommend that you *compare* the findings on your *current position* with your *future borrowing plans* and place yourself into the most appropriate group. There are two that come to mind:

To which group do you belong?

Either you are in the first group, where your lowest overall cost and most satisfactory option is to resolve these liabilities as soon as possible.

OR

You are in the second group, where it is NOT in your best interest to resolve these outstanding liabilities.

1. If you have assets and income or plan to borrow aggressively within the next seven years, your overall lowest cost position will most likely be to find a way to negotiate your outstanding liabilities to a minimum level and pay them. This may be far less costly than having liens placed against your assets at the full value of the liabilities, including late fees and accrued interest. And, it is highly likely that this is less expensive than borrowing at excessively high rates on major purchases for the foreseeable future. Plus, with the techniques provided in this booklet, you can resolve those debts for far less than you may have expected.
2. If you do not have assets, if you do not have income and if you have no future borrowing plans for at least seven years, then you may be one of those distinct minorities that can afford to not resolve your liabilities. You can wait until all of the negatives age off your credit report. While in all of our research, we have met very few consumers who can wait seven years or more before buying a new car or incurring some other costly financial service, you may be one of those few. However, before you come to this conclusion, please remember that any charge offs will remain on your credit report for seven years and any bankruptcy will remain for ten years. Although you may be able to handle the situation financially, the emotional turmoil may take its toll during the time before the delinquent debt ages off your credit file. Who can calculate the true cost of the emotional stress you will be forced to pay?

2. **How can you negotiate with the numerous collectors so that you can improve your credit risk profile, while you are resolving your delinquent and defaulted debts?**

We have found that the best approach to this challenging question, is to break it down into a series of more focused questions, which we have done below:

- How can you *prioritize your liabilities*, so that you can use your limited financial resources to your best advantage?
- How can you approach those collectors who are addressing the debts you would like to resolve so that you appear to be *different* and *more reliable* than the typical debtor, while you also insure that you are *treated with dignity*?
- How can you *negotiate successfully for a discount*?
- How can you *insure* that any account you resolve will contribute toward *improving your credit rating*?

How can you prioritize your liabilities, so that you can use your limited financial resources to your best advantage?

- As a very first step, if you have any delinquent debt that you must cure in order to earn your livelihood, make that account your highest priority. For example, if you need your car to earn a living and that is in delinquency, please cure it as soon as possible.
- As a second step, you need to identify which accounts are just delinquent and which are charged off and make settling the delinquent accounts a higher priority, with the least delinquent the highest priority, if this is at all possible. In credit scoring algorithms charge offs rank as significantly more negative than delinquencies and delinquencies of less than 60 days are much less negative than delinquencies that are 60 days beyond terms. In this manner, it is possible to aggressively keep the delinquencies from reaching the more negative charge off status, which is important in reducing future borrowing costs.
- Thirdly, within each category, such as delinquent or charge off, prioritize from the smallest balance owing to the largest. *Many credit-scoring algorithms are more sensitive to the number of delinquencies or charge offs*, more so than to the balance involved in each.



How can you approach those collectors who are addressing the debts you would like to resolve so that you appear to be different and more reliable than the typical debtor, while you also insure that you are treated with dignity?

You need to position yourself as a ***different kind of debtor*** than collectors are used to seeing, one who is ***truthful, reliable and responsible***. Most collectors expect debtors to respond poorly. They expect debtors to not return calls, to not answer their notices, to outright lie, to make promises they do not keep and to issue checks that do not clear the bank.

Your very first step toward a lower cost solution for you is to act the opposite of the typical debtor. That means that you need to initiate contact and keep all of your promises, no matter how trivial. If you tell a collector to expect your call at 9AM on Tuesday, then call precisely at 9AM. Moving with no forwarding address, refusing to return phone calls, denying debts you know you owe and other tactics typical of debtors who owe defaulted debts, will only weaken your future negotiating position.

Secondly, you need to require that all ***collectors treat you with dignity and courtesy***. You have every right to insist that they speak to you courteously, that they refrain from foul language and threats and that they approach you in a calm, reasonable manner. You can accomplish this by stating to the collector that you are willing to resolve all of your debts as soon as possible, but that you are going to decide whom you are going to deal with first based upon how reasonably and courteously you are treated. Should any collector violate those standards, if it suits your needs, make him a very low priority and go onto your next outstanding liability. Keep in mind that you also have the option of asking to speak to another collector regarding your account should you desire to do so.

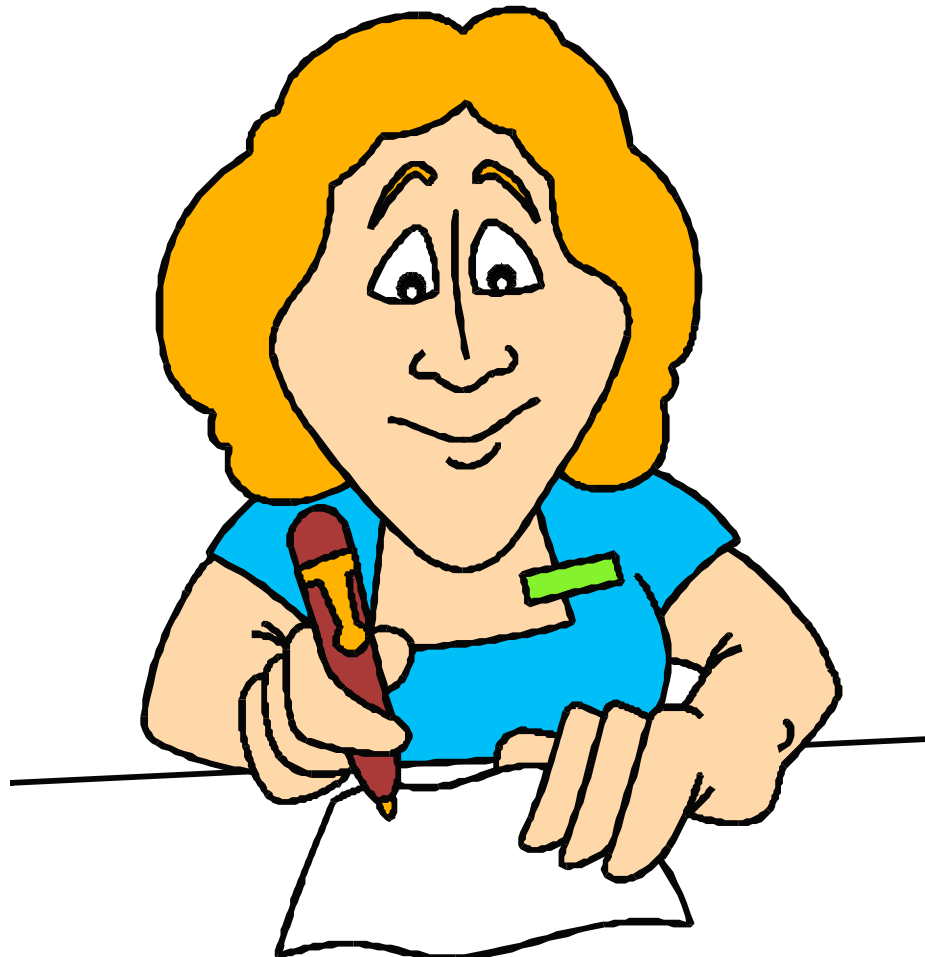


How can you negotiate successfully for a discount?

Believe it or not, establishing yourself as ***different***...as truthful, reliable and responsible gets you half way to a better discount. And, requiring them to treat you with respect also is helpful, as we will show you below.

The next step in getting a discount is to develop a true picture of your circumstances and why you cannot afford to pay the entire claim across all of your outstanding liabilities.

- In this, be truthful in the extreme. Remember, the collector is most likely looking at a copy of your credit report as you tell him your story, which means that he will know if you are current on your house and car and if you have other accounts in delinquency or charge off. So, should you fabricate a “sob” story that is patently untrue, you are no longer “different” (as in more truthful and reliable) and you have compromised your positioning, most likely forever.
- When developing your story, please create a direct link between your predicament and your ability to pay. Be explicit.



Once accomplished, then you need to organize your outstanding liabilities into two categories.

- Those which you can afford to pay a noteworthy portion of the claim within the next three months.
- And, those debts that you will need to cure over a longer term in accordance with some kind of payment schedule.

Asking for your discount!

For those debts you feel you can resolve in cash in the next 90 days, you are now in a very good position to state firmly how much of the outstanding debt you are willing to pay, which you can reinforce in the following way:

- You *can successfully negotiate away late fees and accrued interest* and, on occasion, *small or large portions of the original balance* by making *a firm and reasonable offer* backed up by *an immediate and highly reliable form of payment*.
 - For example, firmly state that you will pay 75% of the original balance only, no late fees, no accrued interest and offer payment in the form of a cashier's check delivered by overnight carrier.
 - Since a collector is not used to a *reasonable offer* from a *reliable person* with a *bonafide method of payment*, your approach is both *different* and *valuable* to him. Please, be sure that he is aware that you will pay, but only in accordance with the terms specified.
 - The “secret” to this technique is in the *firmness* with which you make your offer. By presenting a reasonable offer firmly, the collector will be focused on risking not getting any better offer in the near term, which would be a disaster for him.



- Further, since your collector will realize that you are more reliable and sincerely attempting to resolve your outstanding debts, he will feel much more comfortable recommending a discount to his supervisor. It is extremely embarrassing for a collector to recommend a discount, offer it to the consumer, only to find that the consumer issues a “bad” check as payment.
- Since most collectors get checks that bounce, it is in your best interest to offer a form of payment where there is no risk of insufficient funds. You can accomplish that with a cashier’s check, a Western Union Money Gram or some other similar kind of automatic payment, like any of the phone pay methods. Please, refrain from offering to charge it on one of your “good” credit cards; the credit card companies frown on this and you may incur a substantial fee for the transfer of funds under those circumstances.
- When you are dealing with the post charge off collector, especially a third party collector who is either a contingent fee collector or a purchased debt collector, your chances of having this approach work are much greater, so stick with it as long as is feasible.
- However, when you are dealing with the creditor’s collector, such as a credit card company’s collector, you may find them only willing to forego the late fees and accrued interest, but very unwilling to discount any of the original balance, regardless of what you say. At this time, if your account is just delinquent, you may offer to pay portions of it in three large chunks over the next 90 days, complemented by immediate forms of payment, as we have discussed. Avoiding a charge off may be worth it to you in the long run. However, do not give up on your search for a discount until you absolutely have to do so.

Multiple Payment Plans

For those debts where you need to resolve them with a multiple payment program, you have two options to consider. Before we discuss these options, it is important to note that you must redirect the collector to these options as soon as possible in the conversation, otherwise you may be subject to numerous calls in which the collector will attempt to force you to pay the balance-in-full right now.

- The first option is the “*partial payment*” plan, in which you pay a few significant payments, in return for which you request a discount. This play is nicknamed the “PPA.” Ask for it by name.
- The second is the “*rewrite*,” in which you agree to pay a monthly fee for a long term, such as 36 months to resolve this debt. And, ask that you be charged 0% interest. Insist on that. It is also possible to get a discount, especially if you owe a great deal and you have some record on your credit report of making payments on time to at least one creditor.
 - For example, if you owe \$4,000 on a defaulted credit card, then you can ask that you pay \$88 per month for 48 months at 0% interest to resolve this debt.

- Beware. These contracts can contain late fees and penalties, including terms that can require that all be repaid immediately if payments are late. In such clauses, the collector can also be granted additional authority to litigate.
- Strive to negotiate away the clauses on accelerating the debt and additional litigation rights. Just insure them that you will pay, if the terms are reasonable. Most likely they will agree. If they do not and you still wish to continue, please be sure you can meet the payment schedule to avoid additional complexities.

How can you insure that any account you resolve will contribute toward improving your credit rating?

First of all, by prioritizing your accounts as shown, you have already made great strides toward improving your credit rating. You have avoided adding more charge offs to your credit file, which is a great accomplishment, one you should be proud of. A charge off is one of the most significant negatives. It is weighted very negatively by nearly all credit rating systems. Now, you have fewer of them.

Next, you will need to insure that you are receiving the most favorable type of account status as possible. The account status of interest is the one that is posted to the credit bureau that signifies how positively the lending community should view your status. For example, a rating of CLOSED is preferable to a rating of CHARGED OFF, so it is in your best interest to ask for the more positive rating at all stages of the process.

It is critical that you insure that your collector posts your improved status to *all three credit bureaus* and that he does so *within 90 days of resolving your account*. Negotiate for this and *get all commitments in writing* and signed by a supervisor or a manager from the collector's organization, preferably prior to settling the account. Get all of your commitments established and documented before you make any payments.

- When you are resolving a *delinquent* debt with the creditor, it is critical that you get them to post your account with a status of "CLOSED." A CLOSED account is much less negative than a CHARGE OFF or a PAID CHARGE OFF, so ask for a CLOSED status by name and get their commitment in writing before you make payment.
- Should you be resolving a *charged off* account, then ask the collector to require the original creditor to change your posted status from CHARGE OFF to PAID CHARGE OFF, which is much less negative.
- Should the collector be unable to do this, then ask them to post your account as a PAID COLLECTION account, which will demonstrate your willingness and ability to resolve the debt. Get this commitment in writing.

- Should the collector be unwilling or unable to guarantee this in writing, then should you decide to continue, ask them to issue to you a certificate acknowledging that you have paid. Ask for a “SETTLED IN FULL” certificate.
- However, when this occurs, please be aware that it will be up to you personally to insure that your new creditor is fully aware of your efforts to resolve these debts.
- Without a posting to all three credit bureaus, there will be no credit-report-based method for you to use to inform your new creditor as you are applying. This means that all forms of computerized scoring will not have this valuable information, which is at best an inconvenience to you, maybe more.
- Should they be unwilling to do any of these, then you may reconsider resolving this debt until you can get the degree of acknowledgement you desire.
- After 90 days, please purchase a copy of your credit report from one of the three bureaus. (See the end of this article.) The price is nominal. Use this report to audit the performance of these collectors to insure that they have upheld their agreement with you. Should any have failed to do so, contact the management of that collection organization immediately. Should they prove unresponsive, contact your lawyer.
- For those debts that you are resolving with multiple or long term payment plans, then you have a more difficult negotiation. It is rare that you will receive any positive account status change on your credit report until you have completed the payment plans and the collector has had a chance to update your credit file, although the creditor should note on any charge off, “NOW PAYING, WAS CHARGED OFF.”



3. How can you live an attractive lifestyle, while you are building your disposable income and reducing your consumption of expensive financial services?

The real secret to finally mastering this problem is not just resolving debts so you can borrow at reduced rates. While that is an essential part of it, the best overall solution occurs when you begin to curb your consumption of financial services. As we have shown, every financial service generates interest expense to the consumer. And, higher interest expense can have a dramatic impact on overall interest charges incurred by the consumer.

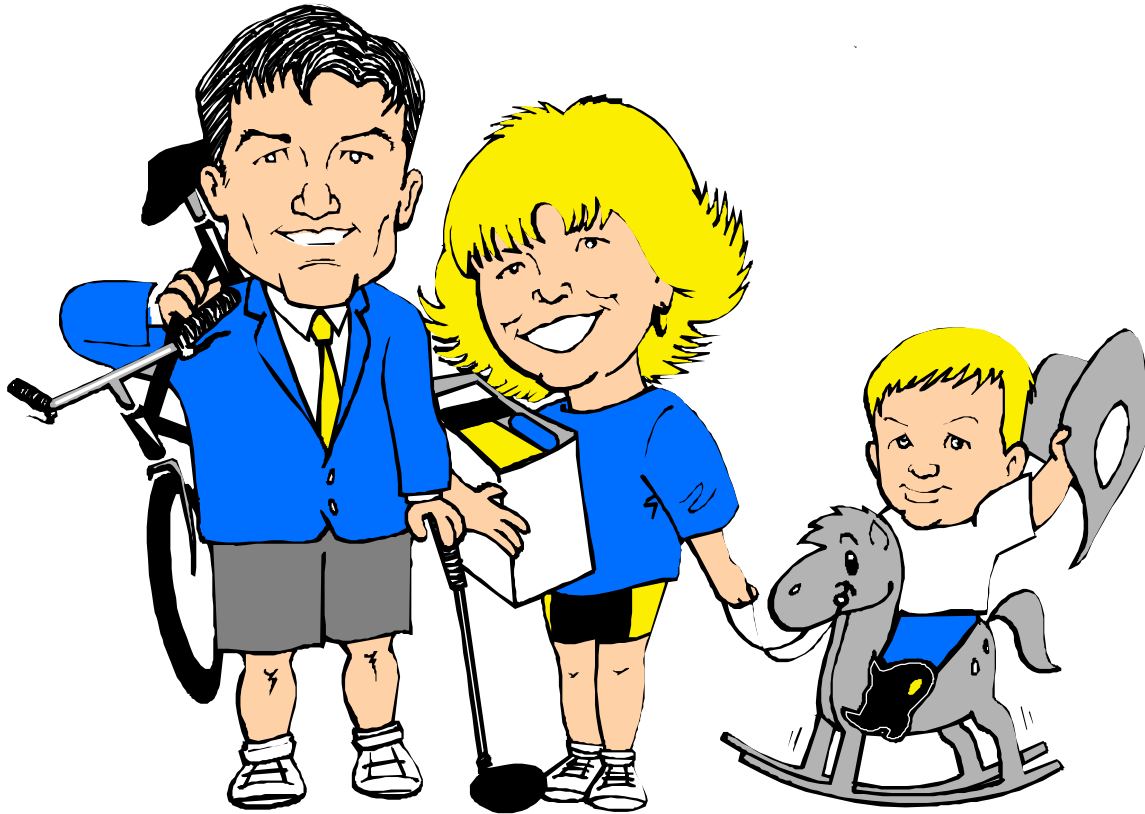
The secret here is to make a series of small decisions that will dramatically reduce the interest expense you are incurring in your life, which will have profound impact on your disposable income and upon the quality of your future life.

- For example, let us take the example of Fred, who eats out every day and puts all of those expenses on his credit card. This seems relatively harmless. Just adding \$5.00 or \$10.00 a day to his charge card. How much could that hurt?
- Let's take a look. At his current rate of consumption and assuming Fred is only paying the minimum on his credit card, Fred will accumulate at least \$1,000 in credit card balance by the 6th or 7th month of this practice. By paying the minimum payment of approximately \$20 for every \$1,000 of balance, Fred will pay off those lunches in 7 years and 10 months at a total cost of over \$1,900 in interest and principal. This analysis does not include late fees (\$30 each) and other costs, such as postage and checks.
- Because of a simple decision to charge his lunches, Fred ended up burdened with debt for over 7 years and paid twice as much for lunch, as his buddy Bob who paid cash. So, when Bob was paying \$6.00 for a sandwich, Fred was really paying over \$11.00 for that same sandwich. Plus, in Fred's state, he could really use that extra \$900 in interest and fees he is going to spend.
- Of course, neither Bob nor Fred is as thrifty as James. James carries his lunch every day. By carrying his lunch, James eats lunch for \$3.00 a day, compared to over \$7.50 per day on average for Bob and Fred. That saving of \$4.50 per day translates into yearly savings for James of almost \$950 a year. For someone with gross pay of \$35,000 and a take-home pay of \$20,000, James just boosted his take home income by 5% while suffering no real hardships.

Add together a number of these "simple" decisions, continue to charge and charge, and you have a huge total expense, with not much to show for it. So, if you love to shop, think about Fred and how much he is really paying.

By riding in a reliable, but lower cost car, by eating out less often, by buying fewer outfits, by buying lower cost toys, you are positioning yourself to generate substantial expense reductions which you can use to your best advantage. By paying down your debts and by saving some of that money, you will be better prepared for the future.

Please remember, at this stage in your financial life, it is in your best interest to accurately discriminate between what you really ‘need’ to buy and what you merely ‘want’ to buy. Determining “needs” verses “wants” can lead to many profitable discoveries and a lot less long-term pain.



The Credit Bureaus

You can purchase your credit report from each bureau at its web site.

- Experian: <http://www.experian.com/>
- Equifax: <http://www.equifax.com/>
- Trans Union: <http://www.tuc.com/>

Worksheets

Sources of Funds	
Paycheck/s	\$
Checking Acct	\$
Savings Acct	\$
SSI	\$
Retirement	\$
Unemployment Benefits	\$
Disability	\$
Settlements (Insurance, Workman's Comp etc.)	\$
Severance Pay	\$
Cash Advance Against Life Insurance	\$
Cash Advance On Credit Cards (not recommended as the first choice)	\$
Real Estate/Home Equity Loans	\$
Deferred Payments (Mortgage, Car & Student Loans)	\$
Personal Loans	\$
Family	\$
Friends	\$
Church	\$
Liquidation of Assets	\$
CD's	\$
Savings Bonds	\$
IRA's	\$
401K	\$
Garage Sales	\$
Hobbies (sales from antiques, for example)	\$
Other	\$
	\$
TOTAL AMOUNT OF MONIES "FOUND"	\$

Family Income and Expenses	
Total Family Income:	\$
Rent	\$
Mortgage Pmt	\$
Mortgage (Second)	\$
Property Taxes	\$
Car	\$
Car (Second)	\$
Electricity	\$
Gas For Home	\$
Water	\$
Garbage Pick-Up	\$
Phone	\$
Cable	\$
Auto Insurance	\$
Life Insurance	\$
Home Insurance	\$
Health Insurance	\$
Credit Cards	\$
Medical Expenses	\$
Bank Loans/Personal Loans	\$
Groceries	\$
Student Loans	\$
Childcare	\$
Auto Expenses	\$
Entertainment	\$
Clothing/Miscellaneous	\$
TOTAL EXPENSES: Subtract total expenses from total income for NDI	\$
NET DISPOSABLE INCOME (NDI)	\$